SOME DATA AND COMMENTS ON THE FARM CREDIT SITUATION

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FARM MORTGAGE DEBT: Total Outstanding and Amounts Held by Selected Lender Groups, United States 1/ in Selected Years

Beginning of year	Total farm mortgage debt 2/	Amounts held by selected lender groups: Federal Land Banks 3/	Federal Farm Mortgage Corp. 3/	Joint stock land banks 3/ 4/	Farm Security Adm. 5/	Life insurance company 6/	Insured commercial banks 7/	Other
	($1,000)	($1,000)	($1,000)	($1,000)	($1,000)	($1,000)	($1,000)	($1,000)
1910	3,207,863	-	-	-	-	386,961	406,248	2,414,654
1920	8,448,772	296,386		60,038		974,826	1,204,383	5,913,139
1925	9,912,650	923,077		446,429		1,942,624	1,200,456	5,400,064
1930	9,630,768	1,201,732	-	637,789	-	2,118,439	997,468	4,675,340
1935	7,584,459	1,947,442	616,737	274,988	-	1,301,562	498,842	2,944,888
1940	6,586,399	2,009,820	713,290	91,726	38,566	984,290	534,170	2,214,537
1945	5,270,655	1,209,646	347,310	5,455	178,936	933,723	449,582	2,146,003
1945 % Distribution	100	22.9	6.6	0.1	3.4	17.7	8.6	40.7

1/ Excludes Territories and possessions.

2/ Data since 1930 are a revised series.

3/ Data for 1930 and subsequent years are revised to include purchase-money mortgages and sales contracts in addition to regular mortgages.

4/ Joint-stock land banks have been in liquidation since May 12, 1933. Includes banks in receivership.

5/ Includes tenant-purchase and farm-enlargement loans, farm-development loans, and construction loans to individuals. Includes loans made for these purposes from State Rural Rehabilitation Corporation trust funds.

6/ Estimates based upon direct reports from life insurance companies, official reports submitted to State insurance commissioners, and "Best's Life Insurance Reports." Data for 1930 and subsequent years revised to include sales contracts as well as regular and purchase-money mortgages.

7/ 1935-45 insured commercial banks, prior to 1935 open State and national banks.

Source: Adapted from data compiled by the Division of Agricultural Finance, BAE.

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Estimated amount of farm-mortgage debt, average interest rate, and debt per mortgaged farm by States and regions

State and region	Farm mortgage debt 1940	Farm mortgage debt 1945	Percent change 1940-45	Average farm interest rate 1923	Average farm interest rate 1943	Average debt per mortgaged farm 1940
	$1,000	$1,000	Percent	Percent	Percent	Dollars
Maine	24,757	15,808	-36.1	6.6	4.7	1,742
New Hampshire	11,220	12,920	15.2	5.1	4.7	1,492
Vermont	27,814	32,528	16.9	5.3	4.9	2,044
Massachusetts	45,845	44,034	-4.0	5.8	4.8	2,445
Rhode Island	4,121	3,890	-5.6	6.0	4.7	2,870
Connecticut	36,742	30,640	-16.6	5.9	4.7	2,837
New York	191,786	147,079	-23.3	5.7	4.8	2,472
New Jersey	48,791	44,673	-8.4	5.9	4.8	3,433
Pennsylvania	131,578	120,936	-8.1	5.7	5.0	2,149
Northeast	522,654	452,508	-13.4	5.7	4.8	2,343
Appalachian 1/	440,838	372,537	-15.5	6.0	4.8	1,592
Southeast	247,945	222,056	-10.4	7.2	5.0	1,298
Lake States	907,234	772,562	-14.8	5.9	4.3	2,999
Corn Belt	1,829,261	1,507,932	-17.6	6.0	4.4	3,350
Delta States	227,979	212,448	-6.8	6.9	5.1	1,237
Great Plains	863,010	549,863	-36.3	6.3	4.2	4,226
Texas-Oklahoma	585,425	447,260	-23.6	7.4	4.5	2,667
Mountain	357,190	240,367	-32.7	7.3	4.6	2,895
Pacific	604,863	493,115	-18.5	6.8	4.9	3,427
UNITED STATES	6,586,399	5,270,655 2/	-20.0	6.4	4.5	2,623

1/ Includes District of Columbia.
2/ Includes $6,621 of joint-stock land bank loans called for foreclosure which are not distributable by States.

Source: Adapted from data compiled by the Division of Agricultural Finance, BAE.

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Other Developments in Farm Credit

In addition to the changes in the sources of credit, there have been other noteworthy developments in this field during recent years. These have been summarized very well in the following quotation from a recent article by Dr. E. L. Butz, of Purdue:

> "Much progress has been made in the last dozen years in the matter of adjusting the terms of agricultural loans to the peculiar requirements of the agricultural industry. For example, in the case of real estate mortgages, the term of the typical mortgage has been extended to 20 or 30 years; the principle of amortization is widely accepted and used; interest costs have been lowered, particularly in areas remote from financial centers; loan fees have been reduced substantially and in many cases eliminated entirely;and the use of prepayment funds as a reserve against 'rainy days' is finding wide acceptance. The most noteworthy improvement in the area of farm production credit has probably been the shift in emphasis from security to ability to repay as a basis for extension of credit. Along with this shift has come the budgeted loan, under the terms of which a borrower may have his money advanced to him as he needs it and may repay the loan as income becomes available. Interest is charged only during the time the money is actually in use. Substantial improvements in production credit available to farmers have been made during the past decade by both production credit associations and banks."1/

One other development that deserves special emphasis is the technical service and advice or supervision that is being given borrowers in addition to the credit that is provided. Concerning this development, Dr. John D. Black, of Harvard, has recently stated:

> "The most important single development in agricultural credit in the last decade has been the combination of technical help in planning for the use of a loan, and in the use of the loan funds subsequently, with the making of the loan. Little of this was in the picture before 1935. Only a few commercial banks went further along this line than occasionally to suggest that a loan would be acceptable if the program for using it were different. The Federal Farm Loan system based it's loans on an appraisal of the farm more than of a production program proposed for it."2/

The evidence so far indicates that the tying together of sound farm management advice with the funds to put the advice into effect is one of the best and fastest ways to improve the income from an individual farm.

1/ Journal of Farm Economics, May 1945, p. 287. 2/ Ibid. August 1945, p. 592.

Problems and Opportunities Ahead

No attempt will be made to give a complete list of the problems along with desirable improvements and changes in the farm credit field. Such a list would be involved, controversial, and of little practical value here. Instead, emphasis will be given to only two problems which are of particular importance in Connecticut and the Northeast generally.

The first is the lack of adequate credit facilities for the part-time farmer. In a sense, he represents the forgotten man in the farm credit field. He is ordinarily too much of a farmer to obtain loans from urban credit facilities and at the same time not enough of a farmer to be served by the usual credit facilities for commercial farmers. Extension of adequate credit to this group is made difficult by the fact that appraising the security of the loan depends on estimating the probable future earnings both from the farm and from the non-farm employment. Although we need much more information on this type of farming, it would seem that the lending institutions and the agricultural colleges could develop some satisfactory standard and appraisal forms that would be of considerable assistance in providing more adequate credit for this group. At any rate there is little question about the existence and magnitude of this problem. In 1939, 30 percent of the farmers in Connecticut were part-time to the extent that they worked off their farms for more than 100 days. Furthermore, present indications are that this group will become even larger during the next 10 years.

The second problem that deserves particular attention, especially in New England, is the lack of adequate credit facilities for financing land improvements. The evidence so far available shows that many land improvements, such as drainage, farm forestry development, stone removal, fertilization, or buildings, are often the best investments the farmer can make. In estimating

the security for such a loan it is essential to appraise the probable effects of such improvements on the total income from the farm over a period of years. That is, one cannot stop with trying to determine the immediate effect on only the land that is improved, because such improvements influence the rest of the farm business. Some of these improvements do in effect increase the size of the farm plant without adding any acreage. The increase in the net income from the farm after such improvements have been made is often surprising, because many of the costs of production are not increased proportionately to the increading volume of business that results.

Even though such loans are often highly profitable, farmers frequently find it difficult and inconvenient to obtain the necessary funds for land improvement. Neither present short-term nor mortgage credit seems to quite fit this credit need of farmers. Perhaps a longer-term type of production credit would be a partial answer to the problem.

It is recognized that briefly pointing out these problems is little help in actually developing a feasible procedure for doing something about them. It is, however, the first step. Satisfactory practices and arrangements for meeting these problems can, of course, come only from actual operating experience by lending institutions under various economic conditions.